

Message Text

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42

ACTION EUR-12

INFO OCT-01 EA-09 NEA-10 LAB-04 ISO-00 EURE-00 L-03 SSO-00

NSCE-00 USIE-00 INRE-00 CIAE-00 INR-07 NSAE-00 PA-02

PRS-01 SP-02 EB-07 FRB-01 TRSE-00 CEA-01 SIL-01 XMB-04

OMB-01 /066 W

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O R 221600Z JAN 76

FM AMEMBASSY LONDON

TO SECSTATE WASHDC IMMEDIATE 8348

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY NEW DELHI

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AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

AMCONSUL BELFAST

AMCONSUL EDINBURGH

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDEL MTN GENEVA

USDOC WASHDC

UNCLAS SECTION 01 OF 02 LONDON 01080

DEPARTMENT PASS TREASURY AND FRB

E.O. 11652: N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS AS OF WEDNESDAY, 1/21/76

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BEGIN SUMMARY: THE JANUARY UNEMPLOYMENT FIGURES PROVIDED

AN UNWELCOME COUNTERPOINT TO RECENT FAVORABLE DEVELOPMENTS IN THE AREAS OF PRICES, OUTPUT, AND CURRENT ACCOUNT. NEVERTHELESS, RATES OF INCREASE IN AVERAGE EARNINGS AND BASIC WAGES CONTINUE TO DECLINE FROM THEIR MID-SUMMER PEAKS. THE RATE OF INCREASE IN THE MONEY SUPPLY REMAINS WELL BELOW THAT OF MONEY GDP. RETAIL SALES SHOW LITTLE SIGN OF ANY UPWARD MOVEMENT. IN SHORT, THE ECONOMY IS JUST ABOUT WHERE THE GOVERNMENT INTENDS IT TO BE WITH CONSUMER DEMAND DAMPENED FREEING RESOURCES FOR INCREASED INVESTMENT AND THE EXTERNAL SECTOR. THE PRINCIPAL UNCERTAINTY IS WHETHER DEMAND WILL MATERIALIZE IN THESE AREAS IN TIME TO DEFUSE PRESSURES FOR MAJOR REFLATIONARY MEASURES. END SUMMARY

1. UNEMPLOYMENT RISES. UNEMPLOYMENT CONTINUED TO RISE IN JANUARY. SEASONALLY ADJUSTED AND EXCLUSIVE OF STUDENTS AND SCHOOL LEAVERS, THE NUMBER OF WHOLLY UNEMPLOYED ROSE TO 1.205 MILLION (5.2 PERCENT), AN INCREASE OF 42,300 FROM THE DECEMBER FIGURE. THE UNADJUSTED FIGURE ROSE BY NEARLY 220 THOUSAND TO A POST-WAR HIGH OF 1.43 MILLION. THIS FIGURE BROUGHT PROTEST FROM ALL QUARTERS OF THE POLITICAL SPECTRUM. HOWEVER, GIVEN THE GOVERNMENT'S COMMITMENT TO REDUCE BOTH INFLATION AND THE CURRENT ACCOUNT DEFICIT, THERE IS LITTLE SCOPE AT PRESENT FOR SIGNIFICANT REFLATION. MESSIEURS WILSON, HEALEY AND FOOT CONTINUE TO DEPLORE THE RISING JOBLESS TOTAL AND PLEAD FOR PATIENCE ON THE PART OF ORGANIZED LABOR. THEIR ARGUMENTS DERIVE FROM THE EXPERIENCE OF PAST RECESSIONS WHERE THE UPTURN IN EMPLOYMENT FOLLOWED THE UPTURN IN OUTPUT WITH A LAG OF 6 TO 9 MONTHS. SINCE THE INDEX OF INDUSTRIAL PRODUCTION BEGAN TO CHANGE DIRECTION IN SEPTEMBER AND OCTOBER, THIS WOULD INDICATE AN END TO RISING UNEMPLOYMENT IN THE LATE SPRING OR EARLY SUMMER WITH THE SEASONALLY ADJUSTED JOBLESS FIGURE REACHING ABOUT 1.4 MILLION OR ABOUT 6 PERCENT.

2. RETAIL SALES. PROVISIONAL ESTIMATES SHOWED THAT RETAIL SALES CONTINUED SLUGGISH IN DECEMBER. THE INDEX OF RETAIL SALES VOLUME (1971 EQUALS 100) STOOD AT 106.5 IN DECEMBER, 0.5 PERCENT FROM THE NOVEMBER FIGURE OF UNCLASSIFIED

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105.9. THE DECEMBER RESULTS COMPLETE A YEAR IN WHICH THE VOLUME OF RETAIL SALES DROPPED 1.9 PERCENT FROM THE 1974 LEVEL. THE COMPARISON BETWEEN DECEMBER 1975 AND DECEMBER 1974 SHOWS THAT RETAIL SALES VOLUME WAS OFF BY 4.0 PERCENT. THERE HAS BEEN VIRTUALLY NO CHANGE IN RETAIL SALES VOLUME SINCE JULY. THIS IS CLEAR EVIDENCE THAT THE HIGHER INDIRECT TAXES INCLUDED IN THE APRIL BUDGET TOGETHER WITH DECLINING REAL INCOMES CONTINUE TO DEPRESS LEVELS

OF CONSUMER EXPENDITURE.

3. WAGES AND EARNINGS. BASIC HOURLY WAGE RATES BARELY KEPT PACE WITH RISING PRICES DURING THE 12 MONTHS ENDING IN DECEMBER. THE INDEX OF BASIC HOURLY WAGES (JULY 31, 1972 EQUALS 100) ROSE TO 198.0 IN DECEMBER, A 1.2 PERCENT INCREASE FROM THE NOVEMBER FIGURE OF 195.4. FOR THE 12

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ACTION EUR-12

INFO OCT-01 EA-09 NEA-10 LAB-04 ISO-00 EURE-00 L-03 SSO-00

USIE-00 INRE-00 CIAE-00 INR-07 NSAE-00 PA-02 PRS-01

SP-02 EB-07 FRB-01 TRSE-00 CEA-01 SIL-01 XMB-04 OMB-01

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FM AMEMBASSY LONDON

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INFO AMEMBASSY BERN

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MONTHS ENDING IN DECEMBER, THIS INDEX ROSE 25.3 PERCENT WHILE THE RETAIL PRICE INDEX ROSE 24.9 OVER THE SAME PERIOD. DURING THE PERIOD SINCE THE INTRODUCTION OF THE 6-POUND WAGE LIMIT BASIC HOURLY WAGE RATES HAVE RISEN AT UNCLASSIFIED

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AN ANNUAL RATE OF 17.6 PERCENT. SINCE THE INDEX IS BASED ON WORKERS PAID ON AN HOURLY BASIS, IT TENDS TO COVER THOSE AT THE LOWER END OF THE PAY SCALE WHERE THE 6-POUND PAY LIMITATION TRANSLATES INTO WAGE INCREASES IN THE 20 PERCENT RANGE. AVERAGE EARNINGS DATA IS AVAILABLE ONLY THROUGH NOVEMBER. IT REFLECTS THE DECLINE IN REAL INCOMES THAT HAS OCCURRED SINCE THE SECOND QUARTER OF 1975. THE INDEX OF AVERAGE EARNINGS (1970 EQUALS 100) STOOD AT 243.5 IN NOVEMBER, AN INCREASE OF 1.7 PERCENT OVER THE OCTOBER FIGURE OF 239.5. IN THE 12 MONTHS THROUGH NOVEMBER AVERAGE EARNINGS ROSE BY 21.2 PERCENT COMPARED WITH A 25.2 PERCENT RISE IN RETAIL PRICES. THIS GAP IS LIKELY TO PERSIST THROUGH THE MIDDLE OF THIS YEAR WHEN THE RATE OF PRICE INCREASE IS LIKELY TO HAVE DECLINED TO A RATE MORE IN LINE WITH AVERAGE EARNINGS.

4. MONEY SUPPLY. FOR THE SECOND MONTH RUNNING, THERE WAS VIRTUALLY NO GROWTH IN THE UK MONEY SUPPLY. THE NARROWLY DEFINED MONEY SUPPLY (M1) STOOD AT 15.93 BILLION POUNDS FOR THE FOUR WEEKS ENDING DECEMBER 10. THIS REPRESENTED AN INCREASE OF 0.4 PERCENT OVER THE NOVEMBER FIGURE OF 15.86 BILLION POUNDS. THE MORE BROADLY DEFINED MONEY SUPPLY (M3) FELL 0.4 PERCENT TO 38.56 BILLION POUNDS FROM THE NOVEMBER FIGURE OF 38.73 BILLION. FOR THE 12 MONTHS THROUGH MID-DECEMBER M1 ROSE BY 15 PERCENT WHILE M3 ROSE BY 8 PERCENT. IN THE THREE MONTHS THROUGH DECEMBER, M1 FELL AT AN ANNUAL RATE OF 3 PERCENT WHILE THE RATE OF DECLINE FOR M3 WAS 0.9 PERCENT. THE RECENT SLUGGISH BEHAVIOR OF THE MONEY SUPPLY IS DUE IN PART TO HEAVY SALES OF GOVERNMENT DEBT TO THE NON-BANK PRIVATE SECTOR.

5. EXCHANGE RATE AND GOLD

EFFECTIVE			
DATE	EXCH.RATE(\$)	DEPRECIATION	GOLD
	(PERCENT)		
/14	2.0270	30.2	132.00
1/15	2.0275	30.2	132.50
1/16	2.0300	30.1	130.00
1/19	2.0325	30.0	128.75

1/20 2.0310 30.0 124.25
 CHANGE 1/13-1/20 UP 0.0060 NARROWED 0.2 DOWN 7.50
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6. FORWARD DISCOUNT ON STERLING

DATE	L MONTH	3 MONTHS	6 MONTHS
1/14	0.97	2.60	4.50
1/15	0.85	2.45	4.45
1/16	0.82	2.42	4.45
1/19	0.95	2.45	4.45
1/20	0.95	2.45	4.45

CHANGE 1/13-1/20 UNCHANGED UNCHANGED UNCHANGED
 (ALL FIGURES IN CENTS)

7. EURODOLLAR INTEREST RATE

DATE	L MONTH	3 MONTHS	6 MONTHS
1/14	5	5-3/8	6
1/15	5-1/4	5-5/8	6
1/16	5-1/2	5-5/8	6
1/19	5-1/8	5-1/2	6
1/20	5-1/8	5-1/2	6

CHANGE 1/13-1/20 UNCHANGED UNCHANGED UNCHANGED

8. LOCAL AUTHORITY DEPOSIT RATE

DATE	L MONTH	3 MONTHS	6 MONTHS
1/14	10-1/16	10-1/16	10-3/16
1/15	10-5/16	10-5/16	10-1/4
1/16	10-1/4	10-3/16	10-3/16
1/19	10-5/16	10-3/16	10-3/16
1/20	10-3/16	10-1/8	10-1/8

CHANGE 1/13-1/20 UNCHANGED DOWN 1/16 DOWN 1/16

9. THE BANK OF ENGLAND'S MINIMUM LENDING RATE IS 10-3/4
 SINCE FRIDAY, JANUARY 16, 1976. SPIERS

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